

OPEN MEETING



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ORIGINAL

MEMORANDUM

Arizona Corporation Commission

DOCKETED

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2014 JUL -8 P 3:59

TO: THE COMMISSION

FROM: Utilities Division

JUL 8 2014

DATE: July 8, 2014

DOCKETED BY

AZ CORP COMMISSION
DOCKET CONTROL

RE: UNS GAS, INC. – REQUEST FOR APPROVAL OF RIDER R-6 LOST FIXED COST RECOVERY TARIFF ADJUSTMENT (DOCKET NO. G-04204A-11-0158)

Introduction

On May 1, 2014, UNS Gas, Inc. ("UNS Gas" or "Company") filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") Mechanism adjustment to be effective July 1, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings determined to have occurred from programs authorized by the Commission.

UNS Gas is requesting that the LFCR charge be set at 0.0695 percent of the customer's bill, which would result in an increase of \$0.05 per month for a residential customer with an average monthly usage of 70 therms.

Description of the LFCR

In Decision No. 73142 (May 1, 2012), the Commission approved the LFCR which provides for the recovery of lost fixed costs associated with EE savings. Costs to be recovered through the LFCR include the fixed cost portion of the delivery charges for all applicable rate classes. The LFCR includes an annual one percent year-over-year cap based on Applicable Company Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase exceeds one percent of Applicable Company Revenues, any amount in excess of the one percent cap will be deferred for collection until the first future adjustment period in which the inclusion of such costs would not cause the annual increase to exceed the one percent cap. The one-year Nominal Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its successor publication will be applied annually to any deferred balance. The interest rate will be adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

By May 1 of each year, UNS Gas will file its calculation of the annual LFCR adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism does not apply to lighting, irrigation, compressed natural gas and the larger customer classes taking service under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to the LFCR mechanism because other rate designs are in place to address lost fixed costs. Residential customers can choose to pay a higher monthly customer charge rather than pay the LFCR rate. The LFCR mechanism will not be applied to residential customers who choose the higher monthly customer charge. The higher customer charge will be specified in the applicable standard offer tariff.

The Plan of Administration ("POA") describes how the LFCR operates. After UNS Gas files its calculation of the annual LFCR adjustment based on the EE savings from the preceding calendar year, Commission Utilities Division Staff ("Staff") will use best efforts to process the matter such that a new LFCR adjustment will go into effect by July 1st of each year. However, the LFCR Adjustment will not go into effect until approved by the Commission.

UNS Gas filed its initial LFCR adjustment filing on May 3, 2013. The total Lost Fixed Cost Revenues for 2012 were \$9,765. As this dollar amount was low and resulted in a monthly increase for the average residential customer of less than \$0.01, UNS Gas requested the LFCR Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery beginning July 1, 2014.

In Decision No. 73936, dated June 27, 2013, the Commission agreed that UNS Gas' LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing.

Staff Analysis

Staff has reviewed UNS Gas' data used in the calculation for the LFCR adjustment. Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA for the LFCR mechanism as approved by the Commission. This calculation is shown in Schedules 1 through 5 of the application. According to the calculations, and in accordance with the POA, the LFCR rate would be 0.0695 percent, which would result in recovery of approximately \$67,000 for the current year plus the deferred balance of \$9,765 from the prior year.

As noted above, in the application, UNS Gas indicated that for a residential customer with an average monthly usage of 70 therms, the estimated monthly bill impact would be an increase of approximately \$0.05 per residential bill.

Staff completed an evaluation of the reported energy efficiency savings for the period June 2012 through December 2013. As a result of that review, Staff and UNS Gas determined the therm energy efficiency savings reported for Residential and Small Volume customers for the period of June 2012 through December 2012 were inadvertently underreported. With the application filed May 1, 2014, UNS Gas has corrected this underreporting. Even though the total lost fixed cost revenue for June 2012 through December 2012 would have been understated, Staff and UNS Gas processed the new LFCR rate calculation with the revenue determined to be deferred until 2014 per Decision No. 73936.

An evaluation of the reported energy efficiency savings for January 2013 through December 2013 was also completed. UNS Gas provided support to Staff for all therm energy efficiency savings matching the therm savings verified by Navigant.¹

¹ Navigant is an independent third party energy consultant responsible for verifying and evaluating energy efficiency programs and savings.

Staff Recommendations

Based on the above, Staff recommends that an LFCR rate of 0.0695 percent be approved and become effective August 1, 2014.

Staff has noted that UNS Gas' 12-month collection period should have begun July 1, 2014. However, given that this is the first year an LFCR rate is being implemented, Staff spent time reviewing the process and data, leading to the earliest possible effective date of the new LFCR rate of August 1, 2014. Staff believes the delay in implementation could cause an under-collection of the approved Lost Fixed Cost Revenue. Staff believes the Company should be allowed to true up the difference between the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue in the 2015 LFCR adjustment. However, the current POA does not provide a balancing account or practical method for implementing a true-up.

Staff recommends that any approved Lost Fixed Cost Revenues either under-collected or over-collected, in the immediate 12-month collection period, be trued-up in the following year's LFCR adjustment.

Staff recommends that UNS Gas shall file by September 30, 2014, as a compliance item in this docket, an updated POA for its LFCR mechanism to incorporate a Balancing Account.

Staff recommends that UNS Gas incorporate language into its existing POA which defines the aforementioned Balancing Account. Suggested language is as follows:

"Balancing Account – An account to track the difference between allowed Lost Fixed Cost Revenue and actual amounts billed by the Company through the LFCR adjustment. The balancing account will be reflected in Schedule 2 of the LFCR Compliance Report and shall be calculated by taking the Total Lost Fixed Cost Revenue from Prior Period less the amount billed through the LFCR for the most recent collection period at the time of filing."

In addition to the suggested language, Staff recommends that UNS Gas incorporate changes to Schedule 2 of the LFCR Compliance Report as outlined in Exhibit 1 to this memo and make all other conforming changes to the corresponding schedules.

Staff further recommends that UNS Gas file a Revised Rider R-6 consistent with the Decision in this case within 15 days of the Decision.



Steven M. Olea
Director
Utilities Division

SMO:RSP:sms\WVC

ORIGINATOR: Ranelle Paladino

Exhibit 1

UNS Gas, Inc.
Lost Fixed Cost Recovery Mechanism
Schedule 2: LFCR Annual Incremental Cap Calculation
(\$000)

Line No.	(A) LFCR Annual Incremental Cap Calculation	(B) Reference	(C) Totals
1.	Applicable Company Revenues		\$ -
2.	Allowed Cap %		1.00%
3.	Maximum Allowed Incremental Recovery	(Line 1 * Line 2)	\$ -
4.	Total Lost Fixed Cost Revenue	Schedule 3, Line 22, Column C Previous Filing, Schedule 2, Line 11, Column C	\$ -
5.	Total Deferred Balance from Previous Period		-
6.	Annual Interest Rate		0.00%
7.	Interest Accrued on Deferred Balance	(Line 5 * Line 6)	-
8.	Total Lost Fixed Cost Revenue Current Period	(Line 4 + Line 5 + Line 7)	\$ -
9.	Lost Fixed Cost Revenue from Prior Period	Previous Filing, Schedule 2, Line 13, Column C	\$ -
10.	Lost Fixed Cost Revenue - Billed ¹		\$ -
11.	LFCR Balance Account	(Line 9 - Line 10)	\$ -
12.	Total Incremental Lost Fixed Cost Revenue for Current Year	(Line 8 - Line 9 + Line 11)	\$ -
13.	Amount in Excess of Cap to Defer	(Line 12 - Line 3)	\$ -
14.	Incremental Period Adjustment as %	[(Line 12 - Line 13) / Line 1]	0.00%
15.	Total Lost Fixed Cost Revenue for Current Period	(Line 8 + Line 11 - Line 13)	\$ -

¹ Amount billed to customers for the collection period of 20XX

BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

IN THE MATTER OF THE
APPLICATION OF UNS GAS, INC.'S
REQUEST FOR APPROVAL OF RIDER
R-6 LOST FIXED COST RECOVERY
TARIFF ADJUSTMENT

DOCKET NO. G-04204A-11-0158

DECISION NO. _____

ORDER

Open Meeting
July 22 and July 23, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS Gas" or "Company") is certificated to provide natural gas service as a public service corporation in the state of Arizona.

Introduction

2. On May 1, 2014, UNS Gas filed an application with the Arizona Corporation Commission ("Commission") requesting approval of its annual Lost Fixed Cost Recovery ("LFCR") Mechanism adjustment to be effective July 1, 2014. The LFCR allows for the recovery of lost fixed costs, as measured by revenue per therm, associated with the amount of energy efficiency ("EE") savings determined to have occurred from programs authorized by the Commission.

3. UNS Gas is requesting that the LFCR charge be set at 0.0695 percent of the customer's bill, which would result in an increase of \$0.05 per month for a residential customer with an average monthly usage of 70 therms.

1 **Description of the LFCR**

2 4. In Decision No. 73142, (May 1, 2012) the Commission approved the LFCR which
3 provides for the recovery of lost fixed costs associated with EE savings. Costs to be recovered
4 through the LFCR include the fixed cost portion of the delivery charges for all applicable rate classes.
5 The LFCR includes an annual one percent year-over-year cap based on Applicable Company
6 Revenues. If the annual LFCR adjustment results in a surcharge and the annual incremental increase
7 exceeds one percent of Applicable Company Revenues, any amount in excess of the one percent cap
8 will be deferred for collection until the first future adjustment period in which the inclusion of such
9 costs would not cause the annual increase to exceed the one percent cap. The one-year Nominal
10 Treasury Constant Maturities rate contained in the Federal Reserve Statistical Release H-15 or its
11 successor publication will be applied annually to any deferred balance. The interest rate will be
12 adjusted annually and will be the annual rate applicable to the first business day of the calendar year.

13 5. By May 1 of each year, UNS Gas will file its calculation of the annual LFCR
14 adjustment, based on the EE savings from the preceding calendar year. The LFCR mechanism does
15 not apply to lighting, irrigation, compressed natural gas and the larger customer classes taking service
16 under C-22, I-30, I-32, PA-42, PA-44, IR-60, and T-2. These customers are not subject to the LFCR
17 mechanism because other rate designs are in place to address lost fixed costs. Residential customers
18 can choose to pay a higher monthly customer charge rather than pay the LFCR rate. The LFCR
19 mechanism will not be applied to residential customers who choose the higher monthly customer
20 charge. The higher customer charge will be specified in the applicable standard offer tariff.

21 6. The Plan of Administration ("POA") describes how the LFCR operates. After UNS
22 Gas files its calculation of the annual LFCR adjustment based on the EE savings from the preceding
23 calendar year, Commission Utilities Division Staff ("Staff") will use best efforts to process the matter
24 such that a new LFCR adjustment will go into effect by July 1st of each year. However, the LFCR
25 Adjustment will not go into effect until approved by the Commission.

26 7. UNS Gas filed its initial LFCR adjustment filing on May 3, 2013. The total Lost Fixed
27 Cost Revenues for 2012 were \$9,765. As this dollar amount was low and resulted in a monthly
28 increase for the average residential customer of less than \$0.01, UNS Gas requested the LFCR

1 Revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing for recovery
2 beginning July 1, 2014.

3 8. In Decision No. 73936, dated June 27, 2013, the Commission agreed that UNS Gas'
4 LFCR revenues for 2012 be deferred and incorporated into the 2013 Compliance LFCR filing.

5 **Staff Analysis**

6 9. Staff has reviewed UNS Gas' data used in the calculation for the LFCR adjustment.
7 Staff finds that the LFCR Annual Adjustment Percentage is calculated in accordance with the POA
8 for the LFCR mechanism as approved by the Commission. This calculation is shown in Schedules 1
9 through 5 of the application. According to the calculations, and in accordance with the POA, the
10 LFCR rate would be 0.0695 percent, which would result in recovery of approximately \$67,000 for the
11 current year plus the deferred balance of \$9,765 from the prior year.

12 10. As noted above, in the application UNS Gas indicated that for a residential customer
13 with an average monthly usage of 70 therms, the estimated monthly bill impact would be an increase
14 of approximately \$0.05 per residential bill.

15 11. Staff completed an evaluation of the reported energy efficiency savings for the period
16 June 2012 through December 2013. As a result of that review, Staff and UNS Gas determined the
17 therm energy efficiency savings reported for Residential and Small Volume customers for the period
18 of June 2012 through December 2012 were inadvertently underreported. With the application filed
19 May 1, 2014, UNS Gas has corrected this underreporting. Even though the total lost fixed cost
20 revenue for June 2012 through December 2012 would have been understated, Staff and UNS Gas
21 processed the new LFCR rate calculation with the revenue determined to be deferred until 2014 per
22 Decision No. 73936.

23 12. An evaluation of the reported energy efficiency savings for January 2013 through
24 December 2013 was also completed. UNS Gas provided support to Staff for all therm energy
25 efficiency savings matching the therm savings verified by Navigant.¹

26 ...

27

28 ¹ Navigant is an independent third party energy consultant responsible for verifying and evaluating energy efficiency programs and savings.

1 **Recommendations**

2 13. Based on the above, Staff has recommended that an LFCR rate of 0.0695 percent be
3 approved and become effective August 1, 2014.

4 14. Staff has noted that UNS Gas' 12-month collection period should have begun July 1,
5 2014. However, given that this is the first year an LFCR rate is being implemented, Staff spent time
6 reviewing the process and data, leading to the earliest possible effective date of the new LFCR rate of
7 August 1, 2014. Staff believes the delay in implementation could cause an under-collection of the
8 approved Lost Fixed Cost Revenue. Staff believes the Company should be allowed to true up the
9 difference between the approved Lost Fixed Cost Revenue and the collected Lost Fixed Cost Revenue
10 in the LFCR adjustment filing in May 2015. However, the current POA does not provide a balancing
11 account or practical method for implementing a true-up.

12 15. Staff has recommended that any approved Lost Fixed Cost Revenues either under-
13 collected or over-collected, in the immediate 12-month collection period, be trued-up in the following
14 year's LFCR adjustment.

15 16. Staff has recommended that UNS Gas shall file by September 30, 2014, as a
16 compliance item in this docket, an updated POA for its LFCR mechanism to incorporate a Balancing
17 Account.

18 17. Staff has recommended that UNS Gas incorporate language into its existing POA
19 which defines the aforementioned Balancing Account. Suggested language is as follows:

20 "Balancing Account – An account to track the difference between allowed Lost
21 Fixed Cost Revenue and actual amounts billed by the Company through the LFCR
22 adjustment. The balancing account will be reflected in Schedule 2 of the LFCR
23 Compliance Report and shall be calculated by taking the Total Lost Fixed Cost
24 Revenue from Prior Period less the amount billed through the LFCR for the most
25 recent collection period at the time of filing."

26 18. In addition to the suggested language, Staff has recommended that UNS Gas
27 incorporate changes to Schedule 2 of the LFCR Compliance Report as outlined in Exhibit 1 to this
28 order and make all other conforming changes to the corresponding schedules.

19. Staff further recommended that UNS Gas file a Revised Rider R-6 consistent with the Decision in this case within 15 days of the Decision.

CONCLUSIONS OF LAW

1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over UNS Gas, Inc. and over the subject matter of the application.

3. The Commission, having reviewed Staff's memorandum dated July 8, 2014, concludes that it is in the public interest to approve the Rider R-6 Lost Fixed Cost Recovery Tariff Adjustment as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the UNS Gas, Inc. Lost Fixed Cost Revenue mechanism adjustment be set at 0.0695 percent effective August 1, 2014.

IT IS FURTHER ORDERED that any approved Lost Fixed Cost Revenues either under-collected or over-collected, in the immediate 12-month collection period, be Trued-Up in the Lost Fixed Cost Revenue adjustment filing completed in May 2015.

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1 IT IS FURTHER ORDERED that UNS Gas, Inc. shall file by September 30, 2014, as a
2 compliance item in this docket, an updated Plan of Administration for its Lost Fixed Cost Revenue
3 mechanism to incorporate a Balancing Account.

4 IT IS FURTHER ORDERED that UNS Gas, Inc. shall incorporate changes to Schedule 2 as
5 outlined in Exhibit 1 and make all other conforming changes to the corresponding schedules.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7
8 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**
9

10 CHAIRMAN

COMMISSIONER

11
12
13 COMMISSIONER

COMMISSIONER

COMMISSIONER

14 IN WITNESS WHEREOF, I, JODI JERICH, Executive
15 Director of the Arizona Corporation Commission, have
16 hereunto, set my hand and caused the official seal of this
17 Commission to be affixed at the Capitol, in the City of
18 Phoenix, this _____ day of _____, 2014.

19 _____
JODI JERICH
EXECUTIVE DIRECTOR

20
21
22 DISSENT: _____

23 DISSENT: _____

24 SMO:RSP:sms\WVC
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26
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28

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